



**Public Service
of New Hampshire**

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The Northeast Utilities System

November 4, 2011

Debra A. Howland
Executive Director
New Hampshire Public Utilities Commission
20 South Fruit Street Suite 10
Concord, New Hampshire 03301

Re: Docket No. DE 11-215, 2012 Energy Service Rate, DE 11-216 Alternative Default
Energy Service Rate and DE 11-217, 2012 Stranded Cost Recovery Charge
Public Service Company of New Hampshire
Staff Recommendation

Dear Ms. Howland:

Public Service Company of New Hampshire ("PSNH" or "the Company") hereby responds to the Staff's recommendation filed with the Commission on November 4, 2011. PSNH agrees with much of what is stated in the Staff's letter. The overall investigation of the scrubber costs may be lengthy or complicated. PSNH has not insisted that these issues must be resolved before a default service rate is established. Some of these issues could be better addressed in the context of a prudence investigation which can follow this energy service rate setting proceeding or a continuation of this proceeding. In this proceeding PSNH will present evidence that the scrubber installation at Merrimack Station is in service, meeting the statutory requirements of reducing emissions, and is actually providing service to customers. RSA 378:30-a. PSNH believes it is in the best interest of customers that recovery of the scrubber costs begin on January 1, 2012.

PSNH was required by state law to construct and operate the a wet flue gas desulphurization system. RSA 125-O:13. RSA 125-O:16 provided an incentive to PSNH to complete the installation of the scrubber earlier than the required date of July 1, 2013. Now that the scrubber is in service, PSNH is entitled to recover the costs through its default service rate. RSA 125-O:18.

In joint testimony filed by the Company on October 14, 2011, PSNH stated that as of September 28, 2011 "the various Scrubber functions were all successfully operating and the Project was fulfilling its statutory purpose of reducing mercury, and also significantly reducing sulfur dioxide emissions." Joint Testimony of Robert A. Baumann and William H. Smagula, at 6. The tie in of Merrimack Unit 2 to the scrubber is on going and scheduled to be completed by mid-November. To further describe the process of completing the scrubber project, PSNH will file an update report in Docket No. DE 08-103 by November 10, 2011. Although the recent October snow storm has delayed preparation of responses to the discovery requests, PSNH will

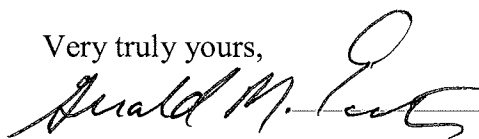
provide responses as soon as possible to all relevant requests necessary to set a rate on January 1, 2012. The Commission has been kept informed as to the progress of the scrubber project and the management of this project through its consultant JACOBS Consultancy. PSNH is not aware of any preliminary findings by JACOBS which would reflect negatively on PSNH's conduct of the project other than safety concerns.

It is in the best interests of customers to begin collecting the scrubber costs on January 1, 2012 rather than deferring those costs and requiring higher rate increases in the future. The scrubber technology became operational in late September per Messrs. Baumann and Smagula's joint testimony. Where the Company was required to construct and operate a particular system, no argument can be made that PSNH was imprudent for choosing a wet flue gas desulfurization system or for completing that legislative mandate well before the deadline. Delaying recovery of collection will only add more carrying costs to the eventual recovery of prudent costs incurred to comply with the law. A one year delay in recovery until a prudence review is completed would result in a deferral of \$61 million to be recovered in a future energy service rate..

This proceeding is a rate setting proceeding not a review of whether the default service costs of fuel, purchased power or the scrubber were prudently incurred. Like temporary rates, the investigation into what is included in setting the default service rate "is 'less stringent' than the standard for permanent rates, in that temporary rates shall be determined expeditiously, 'without such investigation as might be deemed necessary to a determination of permanent rates.'" *Appeal of the Office of Consumer Advocate*, 134 N.H. 651, 660 (1991); citing *New Eng. Tel. & Tel. Co. v. State*, 95 N.H. 515, 518 (1949). Only when the Commission is asked to finally approve the recovery of all of the default service costs in a reconciliation proceeding or separate prudence proceeding for the scrubber costs, must the Commission determine if those costs were prudently incurred and that the investment is used and useful. RSA 378:28. Customers are protected by the provision in the energy service rate process that imprudent or unreasonable costs would be refunded with interest.

In summary PSNH does not object to the bifurcation of this proceeding into a rate setting proceeding and a prudence proceeding or for the establishment of a separate docket for investigating prudence of the scrubber costs so long as the Default Energy rates are set in a timely manner. PSNH does however insist that the Company has a right to request the commencement of recovery of the scrubber costs as of the in-service date of September 28, 2011, and that such cost recovery commence on January 1, 2012. Copies of this letter were sent to the persons on the Commission's service list.

Very truly yours,

A handwritten signature in dark ink, appearing to read "Gerald M. Eaton", is written over a horizontal line.

Gerald M. Eaton
Senior Counsel